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SUBJECT: Graduate Unemployment in China: Financial Crisis  
Aggravates a Preexisting Condition

REF: Beijing 400

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¶1. (SBU) Summary: The Chinese government blames rising unemployment on the global financial crisis, but in the case of college graduates the crisis has only exacerbated a preexisting problem. Graduate unemployment began to rise in 2003, as a result of policies to expand enrollment, while reforms that would promote demand for educated workers and make the education system and labor market more flexible lagged behind. Steps the government has announced in response to the global financial crisis to reduce graduate unemployment may be necessary, and may work in the short term, according to one local expert, but they do not address the root causes of the problem. The expert believes unemployed graduates will remain at home, take up further studies, or find low skilled jobs to get by, but are not likely to contribute to social instability. End Summary.

¶2. (SBU) China's State Council warned in a February 10 document that, "under the influence of the spreading global financial crisis, job creation is becoming more difficult and the risk of unemployment is growing." The "Notice on Carrying Out Job Creation Well Under Current Economic Circumstances," outlined government measures to promote employment for the two groups most affected by rising unemployment: migrant workers and university graduates. There is a big difference between the two groups, however. Unlike unemployment among migrant workers, which is directly connected to the contraction of China's export markets, graduate unemployment is mainly a result of government policies that produce the wrong number of the wrong type of graduates, and erect barriers between graduates and employers.

#### Root Causes of Graduate Unemployment

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¶3. (SBU) Lai Desheng, director of the Labor Market Research Center at Beijing Normal University, told Laboff on February 12 that graduate unemployment began to rise in 2003, when the first students admitted under expanded university enrollment policies of 1999 joined the job market. Lai said the problem has been growing worse each year, and that the global financial crisis has exacerbated it, with many enterprises now reducing or suspending recruitment. China's Ministry of Human Resources and Social Security (MOHRSS) said that 6.1 million new graduates will enter the job market in 2009, joining approximately 1 million from previous years who remain unemployed. Despite the fact that the number of graduates is outpacing the number of new jobs, Lai noted that the matriculation rate in China is very low (23-24 percent of the college-aged population compared to 68-70

percent in the United States). In Lai's view, the problem is not oversupply, but suppressed demand, the quality of graduates and market impediments.

14. (SBU) Lai said China's export-led growth model, with its focus on manufacturing and processing, has not created enough jobs in the pre-production (research and design) and post-production (sales, marketing, distribution and related services) sectors of the economy, so growth has not created enough new jobs for educated workers. He said the quality of graduates is also a major problem. The Chinese educational system is more rigid than other countries he has studied, and does not adjust quickly enough to the changing needs of the labor market. The education system also does not provide graduates with enough practical experience, requiring employers to invest heavily in training new employees who already have degrees, or pay a premium to recruit someone from the small pool of workers who already have the necessary skills. Lai's observations about the quality of Chinese graduates track with observations by human resources firms operating in China.

15. (SBU) Lai also listed a number of structural obstacles to graduate employment. First among these is the household registry (hukou) system, which he said fragments the labor market, making it difficult to match graduates with jobs. Most college graduates come from rural areas, he said, and the hukou system forces them to accept jobs in cities that will not grant them permanent resident status, or return to rural areas where there may be no jobs in which they can put their education to use. (Note: Some employers can sponsor new hires for local hukous, but in the most desirable cities, the local government only grants this privilege to certain employers or for workers with highly-sought skills. End note.) Lai said recruitment into the government or state-owned enterprises depends too much on personal relationships. In the private sector, Lai said domestic "local protectionism" has fragmented the market for goods and services, and a lack of genuine competition between enterprises has prevented the development of large national employers.

#### What the Government is Doing

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16. (SBU) The State Council "Notice" endorses a number of measures to promote graduate employment, all of which are already being carried out in at least some jurisdictions in China. These measures include:

- creating new government jobs for university graduates on the staffs of local governments, schools and clinics in underserved rural areas, or at neighborhood level in urban areas;
- providing cost-of living and social insurance subsidies, student loan repayment, and/or priority for graduate enrollment for students willing to serve in the military or work in hard-to-fill public sector jobs;
- creating research fellow positions for new graduates at government-funded research institutions;
- eliminating hukou restrictions and simplifying other bureaucratic procedures for certain employers hiring college graduates;
- tax exemptions and subsidies to offset social insurance contributions for employers who hire unemployed graduates;
- government loans (up to two million yuan) for small enterprises that hire a certain number of unemployed graduates;
- small government loans (up to 50,000 yuan) for

university graduates starting their own businesses;

-- graduate training programs for up to one million university graduates at government training centers (to be established). These centers will provide a basic living stipend and work with local employers to offer practical experience.

What Needs to Be Done

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17. (SBU) Lai Desheng described the steps the government has announced so far as "short-term demand-side" measures, and said they probably will help, and may be necessary to respond to the job crisis. But in Lai's view, these measures do not address the root causes of graduate employment. In the long-term, Lai said reforms meant to promote domestic consumption and innovation will be key to developing an "inclusive growth model" that will foster the development of competitive industrial and service sector employers that can offer job opportunities for workers in all phases of the production cycle. Lai also said the government should work address the quality of graduates, by aligning university curricula better with the needs of the labor market. He said universities should help more with job placement, offer more internships and practical training opportunities, and teach career planning and entrepreneurship. Lai said he believed China could largely solve the problem of graduate unemployment within a decade.

Potential for Social Instability

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18. (SBU) Lai Desheng said that prolonged unemployment among young people in general is a potential source of social instability (ref), but he believed that most unemployed graduates from urban areas would likely remain with their parents or pursue further studies until the employment situation improves. Graduates from rural areas, he said, would likely have to give up, at least temporarily on "decent employment," and take up low-skilled jobs just to make a living.

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